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RELATIONSHIP BETWEEN SIZE OF COMPANY, TYPE OF INDUSTRY AND  
LEVERAGE WITH TAX NON COMPLIANCE: THE CASE OF SMALL  
MEDIUM CORPORATIONS IN KUALA LUMPUR BANDAR BRANCH

By

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Project Paper Submitted to  
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(International Accounting)



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## ABSTRACT

The increasing of tax non-compliance cases in Malaysia is a serious concern to tax authority in this country. Previous studies have shown that size of company, types of industry and leverage are among the factors that contributing to tax non-compliance. These three variables were chosen because they were among the major contributors to national revenue losses. Thus, this study examines the relationship between size of company, types of industry and leverage with tax non-compliance among small and medium corporations (SMCs) tax audited by Inland Revenue Board of Malaysia (IRBM). SMCs are chosen because they contribute immensely to Malaysian economic growth and indirectly will give impact to tax collection. Tax non-compliance indicator in this study is tax audit adjustment. The study used 2015 actual tax audit cases gathered from Department of Operation Tax, IRBM in Kuala Lumpur Bandar branch. Besides that, the data analysis techniques in this study comprise of descriptive analysis, correlation analysis and multiple regression analysis. It was found that company size and leverage have significant relationships with tax non-compliance. The finding also shows that type of industry have a relationship with tax non-compliance. The findings of this study may assist IRBM in identifying possible cases for audit in future.

**Keywords:** *tax non-compliance, company size, type of industry, leverage.*



## ABSTRAK

Peningkatan kepada aktiviti ketidakpatuhan cukai di Malaysia menyebabkan penguatkuasa cukai di negara ini mengambil serius tentang perkara ini. Size syarikat, jenis industri dan leveraj adalah antara faktor yang menyumbang kepada ketidakpatuhan cukai. Ketiga-tiga pembolehubah ini dipilih kerana ia merupakan antara penyumbang utama kepada kerugian hasil negara. Oleh itu, kajian ini menyelidik tentang hubungan antara saiz syarikat, jenis industri dan leveraj dengan ketidakpatuhan cukai di kalangan Syarikat Kecil dan Sederhana (SKS) yang telah di audit oleh Lembaga Hasil Dalam Negeri Malaysia (LHDNM). SKS dipilih kerana ia adalah antara syarikat yang menyumbang kepada ekonomi negara dan secara tidak langsung memberi impak kepada kutipan cukai negara. Petunjuk ketidakpatuhancukai bagi kajian ini ialah pelarasan audit cukai. Kajian ini menggunakan data sebenar mengenai SKS yang diperolehi daripada Jabatan Operasi Cukai, LHDNM yang di audit oleh cawangan Kuala Lumpur Bandar pada tahun 2015. Teknik analisis data yang digunakan ialah analisis deskriptif, analisis korelasi dan analisis regresi berganda. Kajian mendapati bahawa saiz syarikat dan leveraj mempunyai hubungan yang signifikan dengan ketidakpatuhan cukai. Kajian juga mendapati jenis industri ada hubungan dengan ketidakpatuhan cukai. Penemuan kajian ini boleh membantu LHDNM dalam mengenal pasti kemungkinan kes audit pada masa akan datang.

**Kata kunci:** *ketidakpatuhan cukai, size syarikat, jenis industri, leveraj.*



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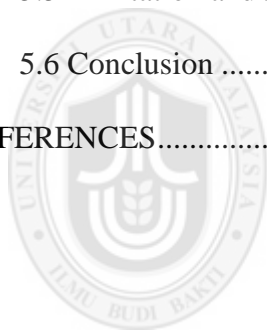


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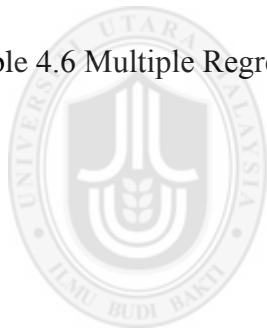
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# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 Background of Study**

The Inland Revenue Board of Malaysia (IRBM) is one of the main revenue collecting agencies of the Ministry of Finance (Ministry Of Finance Malaysia, 2014/ 2015). IRBM was established in accordance with the Inland Revenue Board of Malaysia Act 1995 to give it more autonomy especially in financial and personnel management as well as to improve the quality and effectiveness of tax administration. The Department of Inland Revenue Malaysia became a board on March 1, 1996, and is now formally known as IRBM. IRBM is responsible for the overall administration of direct taxes and the main Act is Income Tax Act 1967 (IRBM Annual Report, 2014).

This agency is responsible for the overall administration of direct taxes not only under Income Tax Act 1967 but also responsible in other acts namely Petroleum Income Tax Act 1967, Real Property Gains Tax Act 1976, Promotion of Investments Act 1986, Stamp Act 1949 and Labuan Business Activity Act 1990. In 2016, the direct taxes collected by IRBM are contributing 53.60 per cent of total federal government's revenue while in 2015; IRBM has contributed 55.34 per cent of the total federal government's revenue as at Table 1.1. However, the total direct tax collection had decreased from RM 121,236 billion in 2015 to RM 113,945 billion in 2016. It shows decreased of 3.69 percent compared to the previous year.

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